Gas OIR, R.04-01-025
Phase II

Independent Storage Provider Interconnections

Settlement Agreement

September 30, 2005

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1. INTRODUCTION

1.1. Purpose and Background

The purpose of this Independent Storage Provider Interconnection Settlement Agreement ("Settlement Agreement" or "Settlement") is to resolve two specific issues set for litigation before the California Public Utilities Commission ("Commission" or "CPUC") in the Gas Reliability OIR – R.04-01-025. The Commission identified the following two issues in its Scoping Memo of February 28, 2005:

> "Should independent gas storage facilities be permitted to directly connect with other market participants such as California producers, electric generators, or other noncore customers, which Public Utilities Code sections are relevant to this issue, and should the Commission be concerned with bypass?" (Scoping Memo, p.5.)
>
> "Should the Commission determine in this proceeding whether the gas utilities' backbone transmission capacity is sufficient to accept maximum withdrawals from all gas storage facilities during peak periods, if emergency gas storage reserves are authorized, or should the Commission defer this issue until such time as it decides whether or not to adopt an emergency gas storage reserve?" (Scoping Memo, p.6.)

Through various rulings, the Commission allowed the parties until September 30, 2005, to attempt to reach a settlement and to file a Settlement Agreement with the Commission that resolves these issues.

This Settlement Agreement sets forth the framework for gas service to certain PG&E noncore end-use customers and receipt of gas supplies from certain California gas producers into PG&E's system via interconnections with the current and future storage facilities of Lodi Gas Storage, L.L.C. ("Lodi"), Wild Goose Storage Inc. ("Wild Goose") or any new storage facility. These entities are referred to collectively as Independent Storage Providers ("ISP"). Under this Settlement, ISPs are also allowed certain direct connections with customers solely to provide storage services. This Settlement also assures that market access by ISPs is not unduly constrained by the capacity of PG&E's backbone transmission system.

1.2. Limitations and Reservations

This Settlement Agreement does not change any of PG&E's obligations, rates or services pursuant to the Gas Accord III Settlement Agreement approved by the Commission on December 16, 2004, in D.04-12-050. This Settlement does not directly affect service to any other PG&E or ISP customer. Unless explicitly changed by this Settlement Agreement, all other portions of PG&E's, Lodi's and Wild Goose's tariffs and Agreements remain in place, unless changed by other Commission action.

This Settlement does not address ISP interconnections with interstate or intrastate pipelines, as no such entities exist or are being proposed at this time in the vicinity of the ISPs' systems. Should an ISP in the future wish to establish an interconnection with a non-PG&E interstate or intrastate pipeline, then the ISP and PG&E will meet and confer in good faith, and try to reach an agreement on the terms and conditions of such interconnection. This agreement would then be filed for Commission approval. If the parties are unable to reach an agreement, then each Party reserves its rights to advocate its position with respect to such interconnection.

1.3. Settlement Parties

This Settlement Agreement is entered into by the Settlement Parties, as identified by their attached signatures. Settlement Parties agree to actively support Commission approval of this Settlement Agreement in R.04-01-025.

A successor company to a Settlement Party will be bound by this Agreement and Commission orders approving this Settlement.

1.4. *Pro forma* Agreements and Tariffs to Implement Settlement

Appendix C contains the *pro forma* Exchange Agreement between PG&E and an ISP. Appendix D contains the *pro forma* PG&E tariffs, including the Service Agreement that is to be completed for each ISP-connected end-use customer or California gas producer obtaining exchange service, and signed by that customer or producer, PG&E and the ISP. Appendix D also contains the *pro forma* Service Relocation Agreement should service be terminated to a PG&E customer pursuant to this Settlement. Appendix E contains *pro forma* Officer Certification forms needed to implement Section 3.6.5 of this Agreement. Settlement Parties request that the Commission approve all these *pro forma* agreements, tariff sheets and forms as part of the Settlement Agreement.

No changes are needed to the Lodi or Wild Goose tariffs to implement this Settlement.

Within 20 business days of a Commission decision approving this Settlement Agreement and the associated agreements, tariffs and forms without modification, PG&E will make a compliance filing to implement the provisions of this Settlement.

1.5. Compromise and Support

This Settlement Agreement is a negotiated compromise of issues and is broadly supported or not opposed by parties to R.04-01-025 who are local distribution companies, gas producers, marketers, shippers, independent storage providers, wholesale and retail end-use customers, and regulatory representatives. Nothing contained herein will be deemed to constitute an admission or an acceptance by any Settlement Party of any fact, principle, or position contained herein. Notwithstanding the foregoing, the Settlement Parties, by signing this Settlement Agreement and by joining the motion to adopt the Settlement Agreement filed before the Commission, acknowledge that they pledge support for Commission approval and subsequent implementation of these provisions.

1.6. Complete Package

This Settlement Agreement is to be treated as a complete package, not as a collection of separate agreements on discrete issues or proceedings. To accommodate the interests of different Settlement Parties on diverse issues, the Settlement Parties acknowledge that changes, concessions, or compromises by a Party or Parties in one section of this Settlement Agreement necessitated changes, concessions, or compromises by other Parties in other sections.

1.7. Modifications by Commission

In the event the Commission rejects or modifies this Settlement Agreement, the Settlement Parties reserve their rights under Rule 51.7 of the Commission's Rules of Practice and Procedure. The Parties agree to a good faith negotiation process in the event the Commission modifies the Settlement.

2. TERM OF SETTLEMENT

2.1. Effective Date

The effective date of this Settlement Agreement will be the date of a final Commission order approving this Settlement.

2.2. Settlement Period

Once it is approved and takes effect, the Settlement will remain in effect indefinitely, until modified or terminated by subsequent Commission order. The Settlement Parties agree not to seek any changes to this Settlement, absent consent of PG&E and the ISPs, prior to the end of the Gas Accord III Settlement Agreement, which currently is scheduled to end on December 31, 2007, for PG&E's gas transmission services.

3. ISP INTERCONNECTIONS

3.1. Overview

Wild Goose is connected to PG&E Line 400 near Delevan and PG&E Line 167 near Gridley. Lodi is connected to PG&E Line 401 near Lodi and is proposing a nearby interconnection with Line 400 in A.05-07-018. These interconnections with the ISPs are subject to Operating and Balancing Agreements (OBAs). The terms and conditions of these OBAs, which include many operating parameters such as pressure, gas quality, and balancing requirements, are not affected or modified by this Settlement.

This Settlement prescribes the circumstances and requirements (a) for an interconnection with the ISP so PG&E can provide service to a PG&E noncore or producer customer using the ISP's storage facilities and an exchange of gas with the ISP ("Exchange Service") or (b) for third-party interconnections with an ISP so the ISP can provide that customer solely with storage services ("Direct Connect Storage Service"). An ISP will also provide storage services to a PG&E customer receiving Exchange Service for balancing at a minimum.

The following defines which PG&E customers are eligible for Exchange Service ("Exchange Service Customer").

a. A PG&E noncore end-use customer (industrial or electric generation facility) that is, or will be, taking service under rate Schedules G-NT or G-EG, and are of a sufficient size as specified in the implementing agreements and tariffs. Other PG&E end-use customers are not eligible.
b. A California gas producer, as defined in PG&E's gas Rule 1, which includes a gathering system operator acting on the producer's behalf.
c. Any PG&E customer that is already connected to the ISP by a customer-owned pipeline.

For Exchange Service to an end-use customer, PG&E delivers gas to the ISP at the ISP-PG&E interconnection, and the ISP delivers the gas through an exchange at a PG&E meter facility that is connected to the ISP on one side and to the end-use customer on the other side. For Exchange Service to a California gas producer, the gas is delivered by the producer through the PG&E meter facility directly connected to the ISP, and the ISP delivers the gas through an exchange to the ISP-PG&E interconnection. The producer gas is then delivered either on-system or off-system under a Gas Transportation Service Agreement (GTSA) in the same way as if the gas were delivered directly to PG&E. In essence, gas to or from a PG&E customer will be exchanged with gas on the ISP's storage facilities. The ISP will receive an Exchange Fee for providing Exchange Service. Appendix A is a simple diagram of these types of facility connections.

These new Exchange Service arrangements will require separate agreements between PG&E, the Exchange Service Customer and the ISP, including new PG&E tariffs. The primary agreement is an Exchange Agreement between the ISP and PG&E. PG&E will also establish a new rate Schedule G-ESISP, "Exchange Service through ISP Facilities." Schedule G-ESISP is in addition to the otherwise applicable tariff requirements for the PG&E customer, and allows the collection of the Exchange Fee and provides for a self-balancing credit to the Exchange Service end-use Customer, among other provisions. Associated with this new rate Schedule is a G-ESISP Service Agreement ("Service Agreement") that is signed by all three parties – the customer, the ISP and PG&E. The Service Agreement requires that all the other agreements and arrangements necessary to provide Exchange Service are in place before service commences.

A PG&E Exchange Service Customer also will have the opportunity to contract with the ISP for storage services. However, at a minimum, an Exchange Service Customer will be required to obtain storage services from the ISP for purposes of balancing that customer's actual flows with its scheduled flows on the ISP system, so the operating and balancing obligations between the ISP and PG&E under the applicable OBA will continue to be met.

For Direct Connect Storage Service, accounting and auditing procedures are specified to verify that storage is the only service being provided by the ISP to the direct-connect customer, and that bypass of the PG&E system and its Commission-approved tariffs and rules is not occurring.

3.2. ISP Exchange Agreement with PG&E

Appendix C is the *pro forma* Exchange Agreement between PG&E and an ISP. Upon approval of this Settlement by the Commission, the Exchange Agreement will be executed by PG&E and Lodi, and by PG&E and Wild Goose, respectively. The following lists the key provisions of the Exchange Agreement. These provisions (Section 3.2 and its subparts) do not apply to direct interconnections between an ISP and a third party pursuant to Section 3.6 of this Settlement Agreement.

3.2.1. New ISP Interconnection to Serve a PG&E Customer

Both PG&E and the ISP must approve a new ISP interconnection to provide Exchange Service to a PG&E customer. Absent the ISP, these customers would obtain service directly from PG&E, and PG&E would be obligated to provide such service to the extent required by PG&E's tariff.

Such approvals will not be withheld by PG&E, unless providing Exchange Service to this customer using the ISP interconnection (a) will impair the integrity of the system or operation of the PG&E pipeline system or ISP storage facilities, (b) will materially reduce the service reliability to other PG&E customers, or (c) will be inconsistent with the otherwise applicable terms of service.

Each ISP reserves the right to refuse to establish an interconnection for the purpose of providing Exchange Service to a particular end-use customer or producer.

3.2.2. Metering and Interconnection Facilities

All ISP interconnections to provide Exchange Service to a PG&E customer will include PG&E-owned metering facilities between the ISP interconnection and the end-user or producer pipeline. In addition to the meter, the metering facilities may include gas quality measurement, regulation and communication equipment. Pressure regulation required by the ISP for deliveries of producer gas will be the responsibility of either the ISP or the producer, as agreed upon between the ISP and the producer, not PG&E.

The ISP will have the right to contemporaneously receive any available data, including meter readings and gas quality data, from the PG&E-owned metering facilities. The ISP will provide and maintain the communication equipment needed to transmit this data from the PG&E meter facility to the ISP. The customer receiving the Exchange Service will be required to agree that this data can be provided to the ISP in order for the ISP to meet the balancing and gas quality requirements for the customer.

PG&E will be responsible for designing, installing, operating and maintaining the metering facilities. The provisions of PG&E's gas Rule 16 apply to this installation, and allowances will be provided to end-use customers based on PG&E's gas Preliminary Statement B, Mainline Extension Rates, which could offset the customer cost for these metering facilities. Producers will not be provided allowances for the PG&E metering facilities.

All pipeline and appurtenant facilities needed to connect the end-user or producer facility to PG&E's meter facility and to provide gas service to the customer will be constructed, owned and maintained by the Exchange Service Customer at its expense. The ISP will be responsible for constructing, owning and maintaining the interconnection tap between its pipeline and PG&E's meter facility.

3.2.3. Operational Requirements

In no case will the ISPs be allowed to transport gas on behalf of third parties via the subject interconnections other than those transactions which are scheduled by PG&E and subject to PG&E tariffs. For example, withdrawal of gas from the ISP storage facility will be at the applicable Mission Path rate or successor PG&E rate schedule, to delivery points as permitted under the Mission Path tariff or successor tariff.

Nominations and scheduling of gas to or from an Exchange Service Customer will be the same as provided in PG&E's tariffs. However, an Exchange Service end-use Customer cannot be covered by a Noncore Balancing Assignment Agreement (NBAA), and an Exchange Service producer Customer must have a California Production Balancing Agreement (CPBA) that is only for this connection.

For the purposes of administering the OBA, PG&E will add the net of all Exchange Service Customer scheduled volumes to the net of the nominations to the ISP to arrive at the scheduled amount at the PG&E-ISP interconnection point. PG&E will confirm these numbers to the ISP scheduler as a normal part of the scheduling process.

3.2.4. Balancing Requirements

The existing OBAs between PG&E and each of the ISPs require that imbalances between scheduled volumes and actual deliveries at the PG&E-ISP interconnection points must be within a small tolerance, and moved toward a zero imbalance in the days immediately following an imbalance. Since Exchange Service Customers will receive gas service on the ISP side of the OBA interconnection point, the imbalances of these customers will physically exist on the ISP system, and not on the PG&E system. The ISP agrees to take responsibility for providing a storage service to these customers that includes storage service for daily balancing, while continuing to meet its OBA obligations. Therefore, the Exchange Service Customer will be obligated to obtain some amount of storage service from the ISP. The terms, balancing limits, and costs will be negotiated between the Exchange Service Customer and the ISP. As a result, Exchange Service Customers will be deemed to be in balance on OFO or EFO days, and not subject to those provisions in PG&E's tariffs.

PG&E will deem the Exchange Service end-use customer to be eligible for the self-balancing credit contained in PG&E's G-BAL Tariff, although this customer is not subject to the balancing provisions of G-BAL, because the imbalance will not physically exist on the PG&E system. Producers are not eligible for this credit.

Exchange Service producers will need to sign a CPBA for this connection, which includes responsibilities for monthly balancing.

3.2.5. Exchange Fee

PG&E will pay the ISP an Exchange Fee for Exchange Service. This will be a volumetric charge, in dollars per therm, applicable to the metered volumes in therms. The Exchange Fee charges will be paid by the Exchange Service Customer to PG&E. PG&E in turn will pay the Exchange Fee charges to the ISP, less the franchise fees and uncollectible accounts expense (F&U) that PG&E is required to collect as specified in Preliminary Statement, Section C.6 of PG&E's tariffs.

The Exchange Fee will be negotiable between the Exchange Service Customer and the ISP, subject to a floor and a ceiling rate. The floor rate for an end-use customer will equal the credit provided to the Exchange Service end-use customer that equals the self-balancing credit contained in PG&E's G-BAL Tariff. The floor rate for a producer will be zero (0). The ceiling rate for all Exchange Service Customers will equal PG&E's then-applicable distribution level rate component of rate Schedule G-NT for Tier 2, winter service. These floor and ceiling rates for the Exchange Fee will be subject to change as such reference rates and fees may change from time to time in PG&E's tariffs.

The Exchange Service Customer's specific negotiated Exchange Fee will be stated in the Service Agreement between the customer, the ISP and PG&E. This negotiated Exchange Fee will be exempt from reporting on PG&E's negotiated contracts report.

3.2.6. Condition and Safety of Facilities

The ISPs and PG&E recognize their respective statutory and regulatory obligations to maintain, inspect and operate all interconnected ISP facilities in a manner consistent with all applicable federal and state safety and pipeline integrity regulations under federal and state law.

3.2.7. Indemnification and *Force Majeure*

The Exchange Agreement will include appropriate indemnification and security arrangements to protect PG&E in case of any ISP service problems that directly result in harm to PG&E or its premises or the Exchange

Service Customer or its premises to the extent those problems involved the negligence, willful misconduct or criminal misconduct of the ISP, and also to protect the ISPs in case of any PG&E service problems that directly result in harm to the ISP or its premises or to the Exchange Service Customer or its premises to the extent those service problems were caused by the negligence, willful misconduct or criminal misconduct of PG&E.

The Exchange Agreement will include appropriate *force majeure* language.

3.2.8. Termination

3.2.8.1. Exchange Agreement Termination

Upon execution, the Exchange Agreement will be of indefinite term, and can only be terminated by (a) breach of the Agreement by one of the parties, (b) governmental action, or (c) approval by the Commission.

3.2.8.2. Service Agreement Termination

A customer-specific G-ESISP Service Agreement can be terminated (a) by mutual agreement, (b) by termination of the Exchange Agreement, or (c) if service is terminated pursuant to the provisions of either PG&E's or the ISP's tariffs and agreements with the Exchange Service Customer. Once Exchange Service is terminated by either PG&E or the ISP, the applicable Exchange Service agreements of the other party, either the ISP or PG&E, with the Customer will be considered terminated. PG&E, the ISP and the customer will engage in a good-faith dispute resolution process upon request by one of the parties. The dispute resolution process is not required to occur prior to termination.

3.3. Exchange Service to a PG&E End-Use Customer

A new rate schedule is needed for PG&E to provide Exchange Service to the end-use customer since it is not directly connected to PG&E's transmission or distribution system. Additionally, in order to clarify the parties' rights and responsibilities in the event the ISP should fail to provide the Exchange Service, a G–ESISP Service Relocation Agreement will be required between PG&E and the end-use customer, to confirm how PG&E will continue its service obligation to that customer, if the customer wants to continue to receive natural gas service. The customer will be required to pay all costs of relocating service to a PG&E transmission or distribution facility. The ISP and the customer must have in place a storage service agreement pursuant to which the ISP must provide a storage service for balancing to the Exchange Service end-use customer.

3.3.1. Notice of End-Use Customer Expression of Intent

PG&E and the ISP will notify the other if either has entered into discussions with a potential Exchange Service end-use Customer, and there is a written, mutual expression of intent with the Customer to receive Exchange Service. Such notification must be made in writing within ten (10) business days after the date of the written, mutual expression of intent, and must state the customer's name, its representative and its contact information, including telephone number and E-mail address.

3.3.2. Exchange Service Responsibilities

The Exchange Service responsibilities are specified in detail in the G-ESISP Service Agreement (see Appendix D-2) that is signed by the end-use customer, the ISP and PG&E.

In general, the end-use customer is responsible for executing and complying with all the applicable connection and service agreements with PG&E and complying with PG&E's tariffs. PG&E is obligated to provide service to the end-use customer consistent with its tariff obligations, except that (a) the daily balancing and gas quality (including gas heating value) will be based on the end-use customer agreements with the interconnecting ISP and not PG&E, and (b) there will be a G–ESISP Service Relocation Agreement between PG&E and the Exchange Service Customer as described below.

3.3.3. PG&E Service Agreements and Charges

Only PG&E noncore and electric generation end-use customers are eligible for this ISP-connection Exchange Service.

3.3.3.1. Rate Schedule

Exchange Service is provided to a customer under rate Schedule G-ESISP. Appendix D-1 is a *pro forma* version. The end-use customer will continue to also take service under rate Schedule G-NT or G-EG, as appropriate, and to execute PG&E's NGSA and be responsible for all other rates and rate schedules applicable to end-use customers. This new rate schedule also allows PG&E to collect the Exchange Fee from the Exchange Service Customer and to provide the end-use Customer a credit since the Customer is not using PG&E's balancing services. This credit is equal to the Self-Balancing Credit under Schedule G-BAL, although this end-use customer is not otherwise subject to the requirements under this schedule.

The issue of whether a noncore end-use customer taking Exchange Service will be required to continue to pay the local transmission rate component in the end-use tariff will be open to reconsideration in the context of PG&E's next Gas Transmission and Storage Rate Case. No changes will be made prior to the conclusion of the Gas Accord III period, currently scheduled to expire on December 31, 2007.

3.3.3.2. Service Relocation Agreement

The end-use customer must sign the G–ESISP Service Relocation Agreement, a *pro forma* version of which is shown in Appendix D-3. The G–ESISP Service Relocation Agreement governs the situation where Exchange Service becomes unavailable or is no longer provided for any reason. The G–ESISP Service Relocation Agreement confirms that, in this situation, the end-use customer will pay all costs to move the service location from the ISP facility to a PG&E transmission or distribution facility, if the customer wants to continue to take natural gas service. This Agreement absolves PG&E from any obligation to maintain Exchange Service to the end-use customer.

Prior to taking action to relocate the service based on the condition of non-PG&E facilities, PG&E will meet and confer with the ISP or customer regarding the conditions that PG&E believes make the ISP's or customer's facilities unsafe or unsuitable, pursuant to good utility practice, for Exchange Service.

3.3.3.3. Exchange Fee

The end-use customer taking Exchange Service must pay the Exchange Fee to PG&E on all metered volumes, measured in therms. PG&E will then pay the ISP the same amount, less the F&U component.

3.3.4. ISP Service Agreements and Charges

The ISP will use its storage services to provide the necessary balancing for the Exchange Service end-use customer. The ISP and this end-use customer will negotiate and sign an agreement for the services and charges. Additionally, the ISP and the end-use customer will agree on gas quality standards, including heating value. The agreement may simply state that the gas quality standards are the same as provided for in PG&E's tariffs. The gas quality agreement can be separate or combined with the storage services agreement. The ISP or the Customer will provide a copy of the gas quality agreement, or the gas quality section of a combined agreement, to PG&E.

3.4. Exchange Service to a California Gas Producer

A California gas producer taking Exchange Service must continue to have (1) a California Production Balancing Agreement, which among other things facilitates nominations and deliveries to a valid Gas Transmission Service Agreement (GTSA) with a Silverado Path Exhibit, and (2) an interconnection and operating agreement, which outlines an interconnection to the PG&E metering facilities. Additionally, in order to clarify the parties' rights and responsibilities in the event the ISP should fail to provide the Exchange Service, a G–ESISP Service Relocation Agreement will be required between PG&E and the producer to confirm that PG&E will not have any continuing obligation to the producer other than as a new interconnecting producer. The ISP and the producer must have in place a storage agreement pursuant to which the ISP must provide the producer a storage service for daily balancing.

3.4.1. Notice of Producer Customer Expression of Intent

PG&E and the ISP will notify the other if either has entered into discussions with a potential Exchange Service producer Customer, and there is a written, mutual expression of intent with the Customer to receive Exchange

Service. Such notification must be made in writing within ten (10) business days after the date of the written, mutual expression of intent, and must state the customer's name, its representative and its contact information, including telephone number and E-mail address.

3.4.2. Exchange Service Responsibilities

The Exchange Service responsibilities are specified in detail in the G-ESISP Service Agreement (see Appendix D-2) that is signed by the producer, the ISP and PG&E.

3.4.3. PG&E Rate Schedule, Service Agreements and Charges

3.4.3.1. Rate Schedule

The producer will take Exchange Service under Rate Schedule G-ESISP. This allows PG&E to bill the producer for the Exchange Fee.

3.4.3.2. Service Agreements

The producer is responsible for paying for PG&E metering facilities, and signing a CPBA and an interconnection and operating agreement with PG&E. However, since daily balancing is being provided by the ISP, the producer will be deemed to be in balance during an OFO or EFO. PG&E is otherwise obligated to provide service to the producer consistent with its tariff obligations.

3.4.3.3. Service Relocation Agreement

The producer must sign the G–ESISP Service Relocation Agreement, a *pro forma* version is shown in Appendix D-3. This agreement absolves PG&E from any liability for any damage if service is discontinued, should the ISP or producer's facilities become, in PG&E's opinion, unsafe or unsuitable for transportation service, pursuant to good utility practice, or service is terminated for any other reason. The producer will pay the cost of relocating the connection to PG&E's System, and PG&E will relocate its facilities provided suitable rights of way are available. A PG&E interconnection would be provided that is consistent with PG&E's generally applicable tariffs for new gas supply interconnections.

3.4.3.4. Exchange Fee

The producer receiving the Exchange Service will pay the Exchange Fee on the metered volumes, measured in therms. PG&E will then pay the ISP the same amount, less the F&U component.

3.4.4. ISP Service Agreements and Charges

The ISP will use its storage services to provide the necessary balancing for the producer. The ISP and the producer will sign an agreement for this service and the charges for this service. The ISP has quality requirements for the gas it delivers to PG&E, and therefore, may impose gas quality requirements on the gas it receives from a producer connection.

3.5. No ISP Facilities on Customer Side of PG&E Meter

The ISPs agree that they will not expand their systems by constructing, acquiring, leasing or otherwise owning by any means, any facilities on the customer's side of the PG&E meter used to provide Exchange Service pursuant to Section 3.3 and Section 3.4, above. Nothing herein is intended to restrict the ability of the ISP to expand or modify its storage facilities on the ISP's side of the PG&E meter, consistent with applicable legal requirements.

3.6. ISP Direct Interconnection Storage Customers

The ISPs will be permitted to interconnect directly with an end-use customer or California gas producer owned pipeline ("Direct Connect Customer") for the sole purpose of providing storage services. This storage service entails the physical receipt and redelivery of gas at the same interconnection point, through a bi-directional meter, between the Direct Connect Customer and the ISP ("Direct Connect Storage Service"). An end-use customer includes the facilities of any wholly-owned affiliates. No other end-use customers may be connected to this Direct Connect Customer-owned pipeline.

The Direct Connect Customer may or may not also be a customer of PG&E as either a producer or end-use customer. However, the Direct Connect Customer of the ISP will not become of a customer of PG&E by virtue of having secured such service, except as provided in Section 3.6.7, below.

Direct Connect Storage Service provided in accordance with this Settlement will be a storage service and will not be construed to be transportation service or Exchange Service. To the extent it is determined that daily net flows through the Direct Connect meter (after adjusting for applicable fuel and losses) do not equal the change in Direct Connect Customer's inventory in storage on that day, the difference will be considered as having been delivered from or to PG&E with the appropriate charges payable to PG&E as provided below.

3.6.1. Reservation of Rights

The Parties agree that the Commission's approval of this Settlement will be without prejudice to the litigation position of any Party with respect to whether the ISPs would be permitted, absent this Settlement, to install and operate such interconnections under their existing certificates of public convenience and necessity. The Commission's approval of this Settlement will not constitute a precedent with respect to the scope of the ISPs' certificate authority.

3.6.2. Notice Requirements

3.6.2.1. Notice of Interconnection to Provide Direct Connect Storage Service

The ISP must notify PG&E that an interconnection is going to be put into operation for purposes of providing Direct Connect Storage Service as least thirty (30) days before gas flows through this Direct Connect. The name and location of the Direct Connect Customer facility must be specified.

3.6.2.2. Confirmation of Direct Connect Customer Pipeline Ownership

Upon request by PG&E, the ISP or the Direct Connect Customer will provide confirmation that the pipeline connecting the end-user facility and the producer to the ISP is wholly owned by the Direct Connect Customer or its wholly-owned affiliate, and is only connected to one end-use customer, which can include facilities of its wholly-owned affiliates. If the Direct Connect Customer is a producer, then the ownership may be by that producer's agent. This obligation will remain in effect for as long as the Direct Connect Storage Service is provided. If the ISP owns the connecting pipeline as provided in Section 3.6.3.3, below, then the confirmation will so indicate.

3.6.3. Facility Requirements

3.6.3.1. Interconnection Facility

The interconnection to the ISP facility, consisting of a tap and meter facilities, will be installed at a point of interconnection between the ISP and a pipeline owned by the Direct Connect Customer.

3.6.3.2. Direct Connect Meter

A bi-directional meter which records daily meter flow in each direction will be installed between the Direct Connect Customer and the ISP, and may be owned by either the ISP or the Direct Connect Customer. The meter design, installation, operation and maintenance must meet the common industry accuracy standards for custody transfer. The meter facility may also include valve, regulation, gas quality, communication and other equipment typical of such an installation.

3.6.3.3. Ownership of Connecting Pipeline

Absent express Commission approval on a case-specific basis, an ISP will not construct or own any pipeline facilities connecting the Direct Connect Customer facility to the ISP's facilities. The ISPs agree to not seek such Commission approvals for a period of four (4) years following approval of this Settlement.

3.6.4. Accounting Procedures

The intent of these accounting procedures is to compare the daily net flows through the Direct Connect bi-directional meter (after adjusting for applicable fuel and line loss as set forth in the ISP's tariffs and the Direct Connect Customer's storage contract) to the change in the Direct Connect Customer's inventory in storage. Any differences will be considered as having been delivered from or to PG&E and invoiced as prescribed below. This daily accounting will be reviewed and confirmed semi-annually at a schedule to be established through discussion with each ISP.

The ISP will maintain a separate Direct Connect Storage Inventory Account for each Direct Connect Customer with daily entries of metered gas flow at the Direct Connect to the ISP (positive entry) and from the ISP (negative entry). An adjustment to reduce the metered quantity of gas delivered from the Direct Connect Customer to the ISP for in-kind shrinkage for fuel and losses, if any, pursuant to the ISP's tariff and the storage services contract with the Direct Connect Customer, will be a negative entry.

For each day, the net meter flow to and from the ISP for a Direct Connect Customer, adjusted for fuel and losses applicable to this Direct Connect Customer, are added to the prior end-of-day balance in the Direct Connect Customer's Storage Inventory Account.

(a) If at the end of any day, this total is less than the current end-of-day Storage Inventory Account balance or if the account balance becomes negative, charges will be due on the difference based on the provisions of Section 3.3, above. In this circumstance, there will be deemed to have been a net delivery to the Direct Connect Meter that did not come from the Direct Connect Customer's Storage Inventory Account, and the PG&E end-use charges that would otherwise apply to that type of Direct Connect Customer will be owed to PG&E.

(b) If at the end of any day, this total is greater than the current end-of-day Storage Inventory Account balance, charges will be due to PG&E on the difference based on the provisions of Section 3.4, above, plus the payment of the Silverado Path As-Available Rate. In this circumstance, there will be deemed to have been a net delivery from the Direct Connect meter that did not go into storage, and was delivered to the PG&E transmission system at the ISP-PG&E interconnection.

Appendix B is an example of the accounting and charges described above.

The ISP will be responsible for paying the charges due to PG&E following each semi-annual review period, if any, under these accounting procedures. The ISP will provide PG&E with the six-month total of the daily volumes on which charges will be due as calculated each day under (a) and (b), above, for each Direct Connect Customer. PG&E will then calculate the bills and submit them to the ISP for payment. It will be solely incumbent upon the ISP to obtain all compensation from the Direct Connect Customer.

3.6.5. Officer Certification

Following each semi-annual review period, an officer of the ISP will certify that the daily calculations for the metered volumes and the changes in the Inventory Storage Account balance, and any volumes on which charges will be due PG&E, are true and accurate. Appendix E shows the *pro-forma* versions for this certification.

3.6.6. Audit Rights

The ISP will retain for three (3) years all Direct Connect daily metering data and all daily transaction records related to all storage accounts for the Direct Connect Customer. PG&E has the right to request an annual audit of the daily accounting, storage inventories, meter data and any other data used by the ISP to track all the accounting for each Direct Connect Customer. The audit will be conducted by an independent third-party auditor to verify the accuracy of the certified data provided to PG&E by the ISP. The audit procedures will include appropriate safeguards against the disclosure of proprietary or commercially sensitive information.

If no additional charges are due PG&E as a result of the audit, PG&E will pay for the audit. If additional charges are due, then the ISP and PG&E will share the cost of this audit.

3.6.7. Conversion to PG&E Customer Status

If the flow of gas ceases to be bi-directional, then that Direct Connect Customer will be deemed to be a PG&E customer and subject to the provisions of Section 3.3 or Section 3.4, as applicable. The Direct Connect Customer will sign a G-ESISP Service Agreement and meet all the requirements therein. In this situation, Section 3.6 will no longer be applicable, and the Direct Connect meter will become a PG&E meter which must meet all applicable PG&E standards for customer or producer metering. If the Direct Connect Customer refuses this conversion to PG&E customer status, then the ISP will be obligated within a reasonable time to cease operation of the interconnection facilities and cease receipts and deliveries of gas between the ISP and the Direct Connect Customer.

3.7. PG&E Computer System Changes

The first ISP to effect an interconnection pursuant to either Section 3.3 or Section 3.4 of this Settlement Agreement agrees to pay PG&E a total of 50 percent of the actual one-time cost of any PG&E computer system changes, not to exceed $150,000, needed to effectuate billing, nominations and gas flows under the provisions of this Settlement. Upon interconnection of the second ISP, it shall reimburse the first ISP 50 percent of the total amount paid to PG&E. All Parties to the Settlement will not oppose PG&E's ability to recover its share of these costs in rates. PG&E's obligation to commence making any computer system changes necessary for the purposes of this Settlement will not commence until the later of (a) April 1, 2006, or (b) the ISP or PG&E notification to the other that it has executed a Letter of Intent with an Exchange Service Customer as provided in Sections 3.3.1 and 3.4.1.

4. ADEQUACY OF PG&E'S BACKBONE FACILITIES

4.1. Current Backbone Capacity Adequacy

The Settlement Parties agree that, based on data provided by PG&E to the ISPs regarding system design and operations, there currently is no need, based on current forecasts and supply scenarios, for expansion of the PG&E backbone transmission system to accommodate withdrawals of gas from the ISP facilities along with other gas flows on the Redwood Path.

4.2. Future Backbone Capacity Adequacy

Upon a reasonable request by an ISP, PG&E agrees to meet and confer in good faith with them about this issue as needed in the future, and to provide updated expansion and cost data, as appropriate, on a confidential basis.

4.2.1. Agreement on Expansion of Backbone

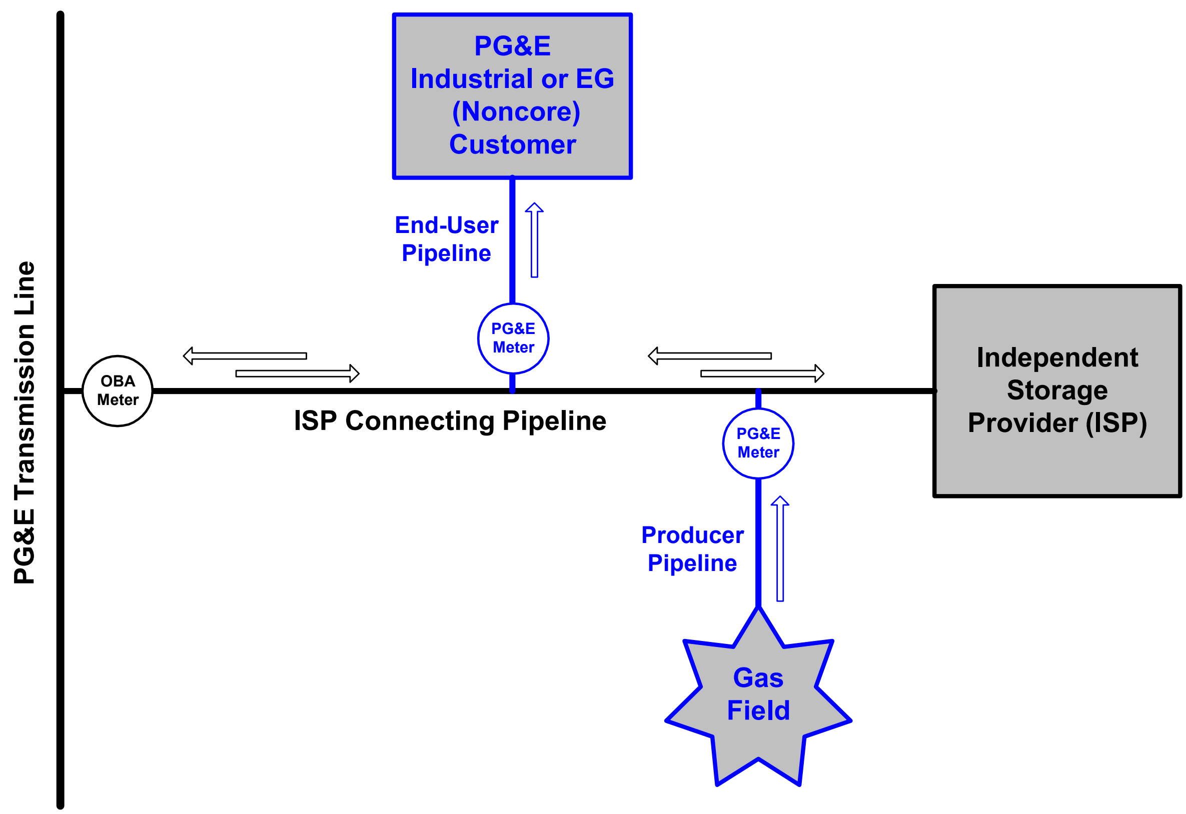
If the ISPs and PG&E agree that expansion of the PG&E backbone transmission facilities is necessary to accommodate withdrawals of gas from the ISP facilities along with other gas flows on the Redwood Path, and provided that PG&E believes it has a reasonable opportunity for full cost recovery, then PG&E will seek any required approvals and expand the system. The ISPs, which are Parties to this Settlement, agree to actively support PG&E's request for timely and full cost recovery of these expenditures in PG&E's general transportation rates.

4.2.2. No Agreement on Backbone Expansion

If the ISPs and PG&E do not agree on whether the expansion of the PG&E backbone transmission facilities is necessary to accommodate withdrawals of gas from the ISP facilities along with other gas flows on the Redwood Path, then each party reserves its rights to seek resolution of the issue before the Commission.

Appendix A

Schematic of Exchange Service Interconnections and Facilities



Appendix B

Example of the Daily Accounting and Charges For an ISP Direct Connect Storage Customer

Pursuant to Section 3.6 of this Settlement

Day	(a) Daily Metered Volumes To ISP	(b) Daily Metered Volumes From ISP	(c) Fuel and Losses	(d) Net Daily Flow To/From Storage (a+b+c)	(e) Prior End-of-Day Inventory + Net Flow (f+d)	(f) Current End-of-Day Inventory Balance	(g) Difference (e-f)	(h) Charges
1	10,100	0	-100	10,000	10,000	10,000	0	No Charges
2	10,100	0	-100	10,000	20,000	20,000	0	No Charges
3	10,100	0	-100	10,000	30,000	27,000	3,000	3,000 Dth charged Silverado Rate
4	10,100	0	-100	10,000	37,000	37,000	0	No Charges
5	0	-10,000		-10,000	27,000	27,000	0	No Charges
6	0	-10,000		-10,000	17,000	20,000	-3,000	3,000 Dth charged End-User Rates
7	5,000	-10,000	-50	-5,050	14,950	14,950	0	No Charges

Appendix C

Pro forma ISP-PG&E Exchange Agreement

Independent Storage Provider (ISP) Interconnections

Pro Forma ISP-PG&E Exchange Agreement

September 30, 2005

Independent Storage Provider Interconnections
Pro Forma ISP-PG&E Exchange Agreement
September 30, 2005

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(continued)

Independent Storage Provider Interconnections
Pro Forma ISP-PG&E Exchange Agreement
September 30, 2005

This Exchange Agreement ("Agreement") is made and entered into this ______ day of ______, 20___, by and between Pacific Gas and Electric Company ("PG&E"), a California corporation, and ___________________________ ("ISP"), a _____________ corporation. PG&E and ISP shall also be hereinafter referred to individually as a "Party" and jointly as the "Parties."

1. OVERVIEW OF EXCHANGE SERVICE

1.1. Exchange Service and the Exchange Agreement

This Exchange Agreement sets forth the procedures and requirements for PG&E to provide gas service to a PG&E customer using the facilities of an ISP ("Exchange Service"). This service was approved by the CPUC in Decision No. 05-xx-xxx. The PG&E customer must, at its own cost, build a service or delivery line to a PG&E meter facility, which in turn is directly connected to the ISP, establishing a customer-PG&E-ISP service interconnection. Using the ISP-PG&E Exchange Service, gas will then be received or delivered through this interconnection and, by exchange, delivered or received by PG&E at a pre-existing ISP-PG&E interconnection. Absent the availability of the Exchange Service, this customer would obtain service directly from PG&E in accordance with PG&E's tariffs.

The ISP will receive an Exchange Fee for providing this service, paid by the PG&E customer to PG&E, and then paid by PG&E to the ISP. This Exchange Fee and charges are described in Section 3.4. The customer will take service from PG&E under Schedule G-ESISP, "Exchange Service through ISP Facilities." The customer, PG&E and the ISP will all sign the G-ESISP Service Agreement ("Service Agreement") that activates Exchange Service for that customer. As part of the Service Agreement, all parties will confirm that the other agreements necessary to provide this Exchange Service have been signed.

1.2. PG&E Customers Eligible for Exchange Service

The following PG&E customers are eligible for Exchange Service ("Exchange Service Customer"):

(a) A PG&E noncore or electric generator end-use customer ("End-Use Customer") who qualify for service under PG&E's Schedule G-ESISP, "Exchange Service through ISP Facilities." Other PG&E end-use customers are not eligible.

(b) A California gas producer ("California Producer" or "Producer"), as defined by PG&E's gas Rule 1, which includes a gathering system operator acting on the Producer's behalf, and who qualify for service under PG&E's Schedule G-ESISP.

(c) Any PG&E customer that is already connected to the ISP by a customer-owned pipeline.

2. EFFECTIVE DATE AND TERM

2.1. Effective Date

The effective date of this Exchange Agreement shall be the first day of the month following the date this Agreement has been signed by both Parties.

2.2. Term

Upon execution, the Exchange Agreement will be of indefinite term, and can only be terminated by (a) breach of this Agreement by one of the Parties, (b) governmental action pursuant to Section 5.4, below, or (c) approval of the CPUC.

3. EXCHANGE SERVICE PROVISIONS

3.1. Notice of Customer Expression of Intent

PG&E and the ISP will notify each other if either has entered into discussions with a potential Exchange Service Customer and there is a written, mutual expression of such intent by the Customer to receive Exchange Service. Such notification must be made in writing within ten (10) business days after the date of the written, mutual expression of intent, and must state the customer's name, its representative and its contact information, including telephone number and E-mail address.

3.2. Approval of New Exchange Service Customers

Both PG&E and the ISP must approve a new interconnection for purposes of providing Exchange Service to a PG&E customer.

Such approvals will not be withheld by PG&E, unless providing Exchange Service to this customer using the ISP interconnection (a) will impair the integrity of the system or operation of the PG&E pipeline system or ISP storage facilities, (b) reduce the service reliability to other PG&E customers, or (c) will be inconsistent with the otherwise applicable terms of PG&E service.

The ISP reserves the right to refuse to establish an interconnection for the purpose of providing Exchange Service to a potential Exchange Service Customer.

3.3. Service for an Exchange Service Customer

Exchange Service Customers will take service under PG&E's Schedule G-ESISP. The Customer, PG&E and the ISP will sign the G-ESISP Service Agreement that specifies the other necessary agreements and obligations of the Parties.

3.4. Exchange Fee

PG&E will pay the ISP an Exchange Fee, in dollars per therm, for the Exchange Service pursuant to PG&E's schedule G-ESISP. The total Exchange Fee charges will be the multiplication of the volumetric Exchange

Fee times the metered volumes in therms for the Exchange Service Customer. The Exchange Service Customer will pay all the Exchange Fee charges to PG&E. PG&E in turn will pay the ISP this amount less the franchise fees and uncollectible accounts expense (F&U) that PG&E is required to collect as specified in Preliminary Statement, Section C.6 of PG&E's tariffs. To the extent the Exchange Fee is negotiable, the Exchange Service Customer and the ISP must agree on the fee to be charged at any point in time. This negotiated Exchange Fee will be specified in the G-ESISP Service Agreement.

3.5. <u>Operational and Balancing Requirements</u>

This Exchange Agreement and the provision of Exchange Service hereunder shall not modify in any way the rights and obligations of the Parties, including daily balancing, under any preexisting PG&E-ISP Operational Balancing Agreement(s) (OBA). As needed to meets its obligations under the OBA, the ISP shall provide storage service for balancing to Exchange Service Customers.

Nominations and scheduling of gas by an Exchange Service Customer must remain in compliance with PG&E's tariffs. For the purposes of administering the OBA, PG&E will add the net of all Exchange Service Customer scheduled volumes to the net of the nominations to the ISP and thereby arrive at the scheduled amount at the PG&E-ISP interconnection point for the gas day. PG&E will confirm these numbers to the ISP scheduler as a normal part of the scheduling process.

In no case may the ISP be allowed to transport gas on behalf of Exchange Service Customers via the subject interconnections other than pursuant to those transactions that are scheduled by PG&E and subject to PG&E tariffs.

3.6. <u>Gas Quality</u>

The ISP and the Exchange Service End-use Customer will agree on gas quality standards. The gas quality agreement can be separate or combined with the storage services agreement. The ISP or the Customer will provide PG&E a copy of such agreement, or the relevant gas quality section of a combined agreement, within ten (10) days of its signing.

3.7. <u>Storage Services from the ISP</u>

A PG&E Exchange Service Customer will have the opportunity to contract with the ISP for storage services, beyond those required for balancing as specified in Section 3.5. The Customer and the ISP will make these additional arrangements, which are separate and distinct from the Exchange Service being provided hereunder.

3.8. <u>Title, Control and Possession of Gas</u>

Upon exchange, title, control and possession of all gas exchanged by PG&E and the ISP pursuant to this Agreement will be pursuant to each Party's tariffs and agreements.

4. EXCHANGE SERVICE FACILITIES

4.1. Metering and Interconnection Facilities

A PG&E Exchange Service Customer will connect to a PG&E-owned metering facility that is then connected to the ISP facilities.

All pipeline and appurtenant facilities needed to connect the Exchange Service Customer to PG&E's meter facility and for PG&E to provide gas service to the Customer will be constructed, owned and maintained by the Exchange Service Customer at its expense.

PG&E will be responsible for designing, installing, operating and maintaining the metering facilities, pursuant to its applicable tariffs. In addition to the meter, the metering facilities may include gas quality measurement, regulation and communication equipment. Pressure regulation between a California Producer and the ISP will be the responsibility of either the ISP or the Producer, not PG&E.

The ISP will have the right to receive contemporaneous meter readings and gas quality data from the PG&E-owned metering facilities. Exchange Service Customers will be required to approve this sharing of data related to their service. The ISP will provide and maintain the communication equipment needed to transmit this data from the PG&E meter facility to the ISP.

The ISP will be responsible for constructing, owning and maintaining the interconnection tap between its pipeline and PG&E's meter facility.

4.2. Condition and Safety of Facilities

Both the ISP and PG&E will meet their statutory and regulatory obligations to maintain, inspect and operate their respective facilities used to provide the Exchange Service in a manner consistent with all applicable federal and state safety and pipeline integrity regulations under federal and state law.

4.3. No ISP Facilities on Customer Side of PG&E Meter

The ISP will not expand its system by constructing, acquiring, leasing or otherwise owning by any means, any facilities on the Exchange Service Customer's side of the PG&E meter. Nothing herein is intended to restrict the ability of the ISP to expand or modify its storage facilities on the ISP's side of the PG&E meter, consistent with applicable legal requirements.

5. REGULATORY

5.1. Applicable Laws, Orders, Rules and Regulations

This Agreement is subject to all valid applicable local, state and federal laws, orders, rules, and regulations of any governmental body, agency, or official having jurisdiction. Nothing in this Agreement shall be interpreted to require either Party to take any action that would be inconsistent with its applicable tariffs or violate any governmental regulation or authority.

5.2. Hinshaw Exemption

PG&E shall not be required to take any action hereunder, including but not limited to entering into any contracts with shippers or other parties transporting gas to or from the ISP's facilities at the PG&E-ISP interconnection point, which, in PG&E's judgment, may jeopardize PG&E's retention of its "Hinshaw Exemption" under the Natural Gas Act.

5.3. Jurisdiction of the FERC

The ISP shall not be required to take any action hereunder, including, but not limited to, entering into contracts with shippers or other parties transporting gas on PG&E's facilities, which, in the ISP's judgment, may cause the ISP to be subject to the jurisdiction of the FERC.

5.4. Governmental Action

Notwithstanding any other provisions of this Agreement, if at any time during the term hereof, any court or governmental authority having jurisdiction shall propose to take any action whereby either Party's delivery, receipt, and/or use of gas hereunder shall be proscribed or subjected to terms, conditions, regulations, restraints, or limits that in the reasonable judgment of that Party prevents it from (a) obtaining the benefit of its bargain hereunder or (b) acting in a reasonable manner to fulfill the terms of this Agreement, such Party shall forthwith notify the other Party, including full particulars of the action proposed to be taken, in order to give that Party the opportunity to intervene or protest such action being taken.

If such court or governmental authority nevertheless takes any such action that, in the reasonable judgment of the Party that is directly affected by that action, prevents it from (a) obtaining the benefit of its bargain hereunder or (b) acting in a reasonable manner to fulfill the terms of this Agreement, such Party shall have the unilateral right to terminate this Agreement at any time upon twelve (12) months written notice, unless the circumstances reasonably support a shortened time period to terminate, by written notice to the other Party, without further liability hereunder, except as to redelivery of any outstanding gas imbalances and payment of any outstanding Exchange Fee charges. Prior to exercising such right of termination, both Parties herein shall enter into good faith negotiations in an effort to reach mutual agreement to modify this Agreement as reasonably required in order to avoid such termination.

5.5. Existing and Additional Facilities

Nothing herein shall be construed as a dedication by either Party of its respective facilities to the other Party. Further, nothing herein shall obligate either Party to construct any additional facilities (including measuring facilities) or to modify any existing facilities to provide for the receipt or delivery of gas. Any new facilities or necessary modifications for either receipt or delivery of gas at the interconnection point between PG&E and the ISP shall be addressed separately.

6. INDEMNIFICATION

Notwithstanding the provisions of Section 9 hereof, each Party ("Indemnifying Party") agrees to protect, defend and indemnify the other Party, its officers, directors, employees, attorneys and agents (collectively, the "Indemnified Party") against, and hold the Indemnified Party harmless from, any and all obligations, losses, claims, actions (including remedial or enforcement actions of any kind and administrative or judicial proceedings, suits, orders or judgments), causes of action, liabilities, penalties, damages, including liability resulting from injury to or death of any person and loss of or damage to any property or to natural resources, or from any violation of any local, state, or federal law or regulation, including but not limited to environmental laws or regulations, or from strict liability posed by any law or regulation; or costs and expenses (including reasonable attorneys' and consultants' fees and expenses) (collectively, "Claims"), arising out of, or related to, or in any way connected with and caused by the Indemnifying Party's negligence, willful misconduct, or criminal misconduct in the performance of or failure to perform this Agreement. As to such claims as may be caused in part by the negligence, willful misconduct, or criminal misconduct of the Indemnified Party, the Indemnifying Party will indemnify the Indemnified Party only to the extent of the contributory negligence of the Indemnifying Party. The Indemnifying Party shall pay all costs that may be incurred by the other Party in enforcing this indemnity obligation, including all reasonable attorneys' fees. The indemnification provisions of this Exchange Agreement are not intended to create or alter any rights or claims of any third parties, or any obligations, responsibilities or liabilities the Parties may have to any third parties.

7. ASSIGNMENT

This Exchange Agreement shall be binding upon and inure to the benefit of each of the Parties and their respective successors and assigns; provided, however, that no Party may assign or transfer this Agreement or any part thereof, or any right or obligation hereunder, without the written consent of the other Party, which may not be unreasonably withheld. Any such assignment which requires written consent hereunder, but which is made without such written consent, shall be null and void. Notwithstanding the above, any assignment of the entire interest and obligations of the assigning Party may be made to a parent or affiliate of such assigning Party, or to an entity succeeding to all or substantially all of the business properties and assets of the assigning Party, following written notice to the other Party.

8. FORCE MAJEURE

In the event either Party is rendered unable, wholly or in part, by *force majeure* (as defined below) to carry out its respective obligations under this Exchange Agreement, it is agreed that, upon such Party giving notice and reasonably full particulars of such *force majeure* in writing (by telecopy, FAX or E-mail) or by telephone (and confirmed in writing within seventy-two [72] hours), to the other

Party within a reasonable time after the occurrence of the cause relied on, then the obligations of the Party giving such notice, so far as they are affected by such *force majeure*, shall be suspended during the continuance of the effects of the cause, and the Party subject to such cause shall remedy it so far as possible with all reasonable dispatch.

The term "*force majeure*," as employed herein, shall mean an event or events beyond the reasonable control of a Party and which could not be avoided by the exercise of due diligence by the party claiming *force majeure* and shall include, but not be limited to, acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, terrorism, and civil disturbances. Failure of an administrative agency to authorize recovery of costs shall not constitute *force majeure*. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the Party having the difficulty, and the above requirement that any *force majeure* shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing Party or others when such course is inadvisable in the discretion of the Party having the difficulty.

9. DISPUTE RESOLUTION

9.1. Remedies for Nonperformance, Breach or Other Default

Each Party agrees that its sole remedies for nonperformance, breach or other default by the other Party in the performance of its obligations under this Agreement shall be as specified in this Agreement. Both Parties agree to use commercially reasonable efforts and actions to correct any such nonperformance, breach or default in a timely manner.

9.2. Meet and Confer Obligation

Within thirty (30) days of written notice from either Party to the other that there is a dispute, claim, or need for interpretation arising out of or relating to this Exchange Agreement, the Parties shall meet and attempt to reach an amicable settlement by management-level negotiation. If the matter is not resolved within thirty (30) days of such meeting, the matter shall be resolved in the manner set forth in Section 9.3 and 9.4, which shall be in lieu of litigation before any regulatory agency or state or federal courts.

9.3. Non-binding Mediation

Upon agreement by the Parties, the Parties may attempt to resolve their dispute through non-binding mediation utilizing a mutually agreed upon mediator. The Parties may establish ground rules for the mediation at least fourteen (14) days in advance of the mediation meeting. The mediation shall be held in San Francisco, California and shall commence within thirty (30) days of the parties' agreement to participate in the mediation. An officer for each Party shall participate therein. Each Party shall bear its own mediation costs. The costs and expenses of the mediator shall be divided equally between the Parties.

9.4. Binding Arbitration

If no settlement is reached as a result of the procedures prescribed in Section 9.3, the matter, other than those tariff and service matters that must be resolved solely before the CPUC, shall be submitted to binding arbitration pursuant to the Commercial Arbitration Rules of the American Arbitration Association (AAA) including any rules for expedition of the hearing process); provided, however, such rules shall be modified as necessary to reflect the following:

(a) Unless the Parties otherwise agree, the arbitration panel shall be composed of three persons. Each Party shall nominate one arbitrator, and the two arbitrators so appointed shall appoint a third, who shall act as the presiding arbitrator or chair of the panel. Such third arbitrator shall have at least 10 years experience as a lawyer or lawyer and judge and shall have significant experience in the natural gas pipeline industry. If either Party fails to nominate an arbitrator within thirty (30) days of receiving notice of the nomination of an arbitrator by the other Party, such (second) arbitrator shall be appointed by the AAA at the request of the first Party. If the two arbitrators so selected fail to select a third presiding arbitrator, the third arbitrator shall be appointed by the AAA. Should a vacancy occur on the panel, it shall be filled by the method by which that arbitrator was originally selected.

(b) The arbitration shall be held at a location to be agreed by the Parties, or, failing such an agreement, at San Francisco, California.

(c) The arbitrators shall hold a preliminary meeting with the Parties within thirty (30) days of the appointment of the third arbitrator for the purpose of determining or clarifying the issues to be decided in the arbitration, the specified procedures to be followed, and the schedule for briefing and/or hearings. The arbitrators shall hold a hearing and, within sixty (60) days of the matter having been submitted for decision shall issue a written decision and include findings of fact and conclusions of law.

(d) Such decision shall thereafter be deemed to be part of this Agreement and incorporated by reference herein.

(e) Pending such decision, the Parties shall continue to operate under the Agreement; however, the decision by the arbitrators should consider specifically the appropriateness of retroactive adjustments to the date the dispute first arose.

(f) The United States District Court for the Northern District of California or the Superior Court of the State of California in and for the City and County of San Francisco may enter judgment upon the panel's decision, either by confirming the decision or by vacating, modifying, or correcting the decision. The Court may vacate, modify, or correct any such decision only: (i) if there exists any of the grounds therefore referred to in the United States Arbitration Act, or (ii) to the extent that the panel's conclusions of law are erroneous.

(g) The cost of the arbitrator appointed by or for the ISP shall be paid for by the ISP; the cost of the arbitrator appointed by or for PG&E shall be paid for by

PG&E; and the cost of the third arbitrator and any attendant cost shall be borne equally by the Parties.

(h) Neither Party shall be assessed any punitive damages.

(i) In the event it is necessary to enforce an arbitration award, all costs of enforcement, including reasonable attorney fees (for in-house and outside counsel), shall be payable to the prevailing Party.

9.5. Choice of Law

The resolution of disputes subject to this Section shall be governed by, and the arbitrators shall render their decision in accordance with, the substantive laws of the State of California, without regard to its choice of law rules.

10. NOTICES AND OTHER CORRESPONDENCE

10.1. Mailing Addresses

Any notice, request, demand, or statement provided for in this Exchange Agreement shall be in writing and deemed given when deposited in the United States mail, postage prepaid, directed to the post office address of the Parties as follows:

[ISP and PG&E CONTACT INFORMATION

ADDRESS

TELEPHONE

FAX ATTN:

E-MAIL]

10.2. Changes In Contact Information

Either Party may from time-to-time change or designate another address, or telephone or facsimile number for such purposes upon thirty (30) calendar days prior written notice by the Party requesting such change.

10.3. Electronic Communications

Notices, requests, and demands may also be delivered by facsimile or other electronic transmittal provided that such facsimile or electronically conveyed notice, request or demand is confirmed in writing delivered as provided in paragraph 10.1 within three (3) business Days of receipt of facsimile or other electronic notice. Notices regarding routine operations may be exclusively communicated by facsimile or other electronic means. All nominations and confirmations may be communicated by facsimile or via electronic data exchange when such systems are operational.

11. OTHER PROVISIONS

11.1. Waiver

No consent, waiver, or acquiescence, expressed or implied, by either Party of any breach or default by the other Party in the performance of its obligations hereunder shall be deemed or construed to be a consent to or waiver of any other breach or default in the performance of any such obligation or any other obligation of the other Party. Failure on the part of either Party to complain of any act or failure to act by the other Party or to declare the other Party in default, regardless of how long such failure continues, shall not constitute a waiver by such Party of any of its rights hereunder.

11.2. California Law

THIS AGREEMENT AND THE OBLIGATION OF THE PARTIES HEREUNDER SHALL BE INTERPRETED, CONSTRUED AND CONTROLLED BY THE LAWS OF THE STATE OF CALIFORNIA.

11.3. Ambiguities or Uncertainties

This Agreement was jointly negotiated, and any ambiguities or uncertainties in the wording of this Agreement shall not be construed for or against either Party, but shall be construed in a manner which most accurately reflects the intent of the Parties when this Agreement was executed.

11.4. Modification or Amendment

This Agreement may be modified or amended only by an instrument in writing executed by both Parties hereto.

11.5. Further Assurances

Each Party shall do all necessary acts and make, execute, and deliver such written instruments as shall from time to time be reasonably necessary to carry out the terms of this Agreement.

11.6. Phrasing

Whenever the context may require, the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

11.7. Headings

The descriptive headings of all paragraphs of this Agreement are formulated and used for convenience only and shall not be deemed to affect the meaning or construction of any such paragraphs.

11.8. Severability

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of that prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of that provision in any other jurisdiction.

11.9. PG&E's Gas Tariffs

PG&E's Gas Tariffs, as approved by the CPUC and subject to any subsequent changes or revisions, are by reference made a part hereof.

11.10. Intention of Agreement

This Agreement is intended solely for the benefit of the Parties and their permitted successors and assigns and, except as may be specifically set forth herein, is not intended to and shall not confer rights or benefits upon any other party.

IN WITNESS WHEREOF, the Parties have, through their duly authorized officers or employees, executed this Agreement as of the date herein above written.

PACIFIC GAS AND ELECTRIC COMPANY

By:______________________________________

Date:____________________________________

(ISP)

By:______________________________________

Date:____________________________________

Independent Storage Provider Interconnections

Settlement Agreement in R.04-01-025

September 30, 2005

Appendix D-1

Pro forma Schedule G-ESISP, Exchange Service Through ISP Facilities

SCHEDULE G-ESISP—EXCHANGE SERVICE THROUGH ISP FACILITIES

APPLICABILITY: This rate schedule* provides for service to a PG&E Customer utilizing the storage facilities owned by an Independent Storage Provider (ISP) through an exchange of gas with the ISP (Exchange Service). PG&E and the ISP must execute an ISP-PG&E Exchange Agreement (Form 79-XXXX). To qualify for service under this schedule, a Customer must be classified as one of the following two types of Customers:

1. Noncore End-Use Customer with historical or potential average monthly use, through a single meter, in excess of 20,800 therms, excluding those months during which usage was 200 therms or less. In addition, the Customer must take service under either Schedule G-NT or G-EG, as applicable, and unless specified herein, is subject to all of the provisions of the applicable rate schedule; or,
2. Producer Customer that has executed operating and balancing agreements, including a California Production Balancing Agreement (CPBA) (Form 79-944), with PG&E, pursuant to Rule 21.

TERRITORY: Schedule G-ESISP is available only to Customers connected to PG&E metering facilities that are in turn interconnected with storage facilities owned by an ISP.

RATES: Noncore End-Use Customers will pay PG&E the rates and charges under Schedule G-NT or Schedule G-EG, as applicable. Customer will also be subject to the Exchange Fee specified in the G-ESISP Service Agreement (Form 79-XXXX). Applicable rates and fees will be specified in the Customer's Natural Gas Service Agreement (NGSA) (Form 79-756).

Producer Customers will pay PG&E the Exchange Fee specified in the G-ESISP Service Agreement.

EXCHANGE FEE: The Exchange Fee, excluding Franchise Fees and Uncollectibles (F&U), will be paid by PG&E to the ISP for the Exchange Service on all metered volumes. The Exchange Fee charged to a Noncore End-Use Customer shall not be less than the Self-Balancing Credit specified in Schedule G-BAL, and to a Producer Customer shall not be less than zero (0). The Exchange Fee charged to any Customer shall not be greater than the Schedule G-NT Winter Tier 2 Distribution-Level Rate.

The total charge for Exchange Service will be based upon the volume of gas, in therms, that is measured by the PG&E-owned metering facilities located between the Customer and the ISP.

AGREEMENTS: All Customers must sign a G-ESISP Service Agreement with PG&E and the ISP.

All Customers must sign a G-ESISP Service Relocation Agreement (Form 79-XXXX) with PG&E.

Noncore End-Use Customers must sign an NGSA with PG&E.

Producer Customers must sign operating and balancing agreements with PG&E, pursuant to Rule 21, including the CPBA. A separate CPBA must be executed for each meter served under Schedule G-ESISP.

All Customers must sign a written agreement for gas balancing service and an agreement for gas quality standards with the ISP. These can be a separate or a combined agreement. The Customer or the ISP will provide a copy of the agreement or the relevant section regarding gas quality to PG&E.

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* PG&E's gas tariffs are on line at www.pge.com

(Continued)

SCHEDULE G-ESISP—EXCHANGE SERVICE THROUGH ISP FACILITIES (Continued)

CUSTOMER SERVICE CONNECTION: To receive service from PG&E, the Customer will interconnect their pipeline to a PG&E metering facility that in turn is connected to the ISP service tap from the storage facilities of the ISP. In addition to the meter, the metering facility can include regulation, gas quality measurement, communication and other equipment. The Customer is required to own the pipeline connection between its facility and the PG&E metering facility, and is responsible for the construction and maintenance of this pipeline.

For a Noncore End-Use Customer, the provisions of PG&E's gas Rule 16 apply to the installation of the metering facility, including the appropriate allowances.

BALANCING SERVICE: All Customers must sign a storage service agreement for balancing service with the ISP.

Noncore End-Use Customers on this schedule will receive a credit equal to the Self-Balancing Credit specified in Schedule G-BAL since balancing service is provided by the ISP. The total credit will be calculated by multiplying the credit times the actual recorded monthly usage per Decatherm. Credits will be provided to Customer on a monthly basis, subject to adjustments. Noncore End-Use Customers cannot aggregate imbalances under a Noncore Balancing Aggregation Agreement (NBAA) (Form 79-869).

Producer Customers must meet the monthly imbalance provisions of the CPBA.

All Customers on this schedule are not subject to the OFO or EFO provisions of gas Rule 14.

TERMINATION: Service under G-ESISP may terminate as provided in the G-ESISP Service Agreement.

Appendix D-2

Pro forma G-ESISP Service Agreement

Pacific Gas and Electric Company
San Francisco, California

Subject to Rule 51 of the CPUC Rules of Practice and Procedure, Rule 601 et seq. of the FERC Rules of Practice, Rule 408 of the Federal Rules of Evidence, and Section 1152 of the California Evidence Code

G-ESISP SERVICE AGREEMENT

This G-ESISP Service Agreement is made by and between Pacific Gas and Electric Company (PG&E), a California Corporation, and ____ (Independent Storage Provider (ISP)), a(n) ____________________________________, and ____ (Customer), a(n) ______________________________, (together referenced as "Parties").

Service Street:	______________________________
Service City, State and Zip Code:	______________________________
PG&E Service Point #:	______________________________
NGSA Trans. ID or CPBA Contract #:	______________________________

1. PG&E will provide Exchange Service to the Customer per the provisions of Schedule G-ESISP.
2. The ISP agrees to interconnect with PG&E's metering facility in order to serve Customer.
3. Customer has built a pipeline from its facility that is interconnected with PG&E's metering facility.
4. Customer and the ISP agree to an Exchange Fee, as specified in Exhibit A to this Agreement, that applies to each therm of gas delivered to Customer or accepted from Customer through the PG&E metering facility that connects with Customer and the ISP facilities. Changes to the Exchange Fee must be agreed to by the ISP and Customer signing a new Exhibit A, and providing a copy to PG&E so it can effectuate the billing change.
5. Customer agrees to pay the Exchange Fee charges to PG&E per the billing, payment and collection provisions of PG&E's tariffs. PG&E agrees to pay the ISP the same Exchange Fee charges excluding PG&E's Franchise Fees and Uncollectibles.
6. For a Noncore End-Use Customer, Customer has signed a Natural Gas Service Agreement (NGSA) (Form 79-756) that includes service under Schedules G-NT or G-EG, as appropriate. For a California gas producer, Customer has signed a California Production Balancing Agreement (CPBA) (Form 79-744), and signed any other agreement required for interconnecting with PG&E.
7. The ISP will use its storage services to provide the necessary balancing service for Customer. The ISP and Customer have signed an agreement for this service, including the charges.
8. The Customer or the ISP has provided or will provide PG&E a copy of its gas quality agreement, or of that section of the storage services agreement related to gas quality, with Customer within ten (10) days of signing.
9. Customer agrees that PG&E can share contemporaneously the Customer's metering and gas quality data with the ISP. The metering data will be provided to the ISP at the PG&E metering facility location.
10. The Effective Date of this agreement is the date that it has been signed by all Parties.

G-ESISP SERVICE AGREEMENT
(Continued)

11. There is no specific termination date for this agreement. Service under G-ESISP will terminate if the ISP-PG&E Exchange Agreement between the ISP and PG&E is terminated, if service to Customer is terminated pursuant to the provisions of either PG&E's or the ISP's tariffs and agreements with Customer, or if Customer is not in compliance with the requirements of this Service Agreement. Once Exchange Service to Customer is terminated by either PG&E or the ISP, it will be considered terminated by the other, including all applicable agreements with the Customer. However, PG&E, the ISP and Customer will engage in a good-faith dispute resolution process upon request by one of the parties. The dispute resolution process is not required to occur prior to termination.

12. This agreement shall at all times be subject to such changes or modifications as approved by the California Public Utilities Commission.

AGREED TO BY:

For Customer	**For ISP**
______________________ (Signature)	______________________ (Signature)
______________________ Name of Authorized Representative (Please print or type)	______________________ Name of Authorized Representative (Please print or type)
______________________ (Title)	______________________ (Title)
______________________ (Signature Date)	______________________ (Signature Date)

For PG&E

____
(Signature)

____
Name of Authorized Representative
(Please print or type)

____
(Title)

____
(Signature Date)

Attachment: Exhibit A – Exchange Fee

G-ESISP SERVICE AGREEMENT

EXHIBIT A – EXCHANGE FEE

Customer Name: ____

NGSA Trans. ID or CPBA Contract #: ______________________________________

The Exchange Fee for G-ESISP service is $____________ per therm, effective
_____________________________________ (date).

A copy of this Exhibit A must be provided to PG&E before this Exchange Fee can be billed to Customer and remitted to the Independent Storage Provider (ISP).

This Exchange Fee is of indefinite term and can only be changed by a newly signed Exhibit A.

For Customer	**For ISP**
______________________ (Signature)	______________________ (Signature)
______________________ Name of Authorized Representative (Please print or type)	______________________ Name of Authorized Representative (Please print or type)
______________________ (Title)	______________________ (Title)
______________________ (Signature Date)	______________________ (Signature Date)

Appendix D-3

Pro forma G–ESISP Service Relocation Agreement

PG&E

Pacific Gas and Electric Company
San Francisco, California

Subject to Rule 51 of the CPUC Rules of Practice and Procedure, Rule 601 et seq. of the FERC Rules of Practice, Rule 408 of the Federal Rules of Evidence, and Section 1152 of the California Evidence Code

G-ESISP SERVICE RELOCATION AGREEMENT

This G-ESISP Service Relocation Agreement is made by and between Pacific Gas and Electric Company (PG&E) a California Corporation, and ____ (Customer), a(n) ____, is to address the situation if Exchange Service is terminated under a G-ESISP Service Agreement at the location(s) specified below.

Service Street: ____

Service City, State and Zip Code: ____

PG&E Service Point #: ____

NGSA Trans. ID or CPBA Contract #: ____

1. Should the use of the ISP facilities for Exchange Service be terminated for Customer or PG&E for any reason, or should the ISP or Customer facilities become, in PG&E's opinion, unsafe or unsuitable for service pursuant to good utility practice, PG&E will continue to provide service to Customer from a different location, if Customer wants to continue to receive service. In such circumstances:

   a. PG&E will relocate the point of service upon request, provided suitable rights of way are available, and Customer first pays to PG&E the cost of such relocation, as estimated by PG&E, per PG&E's applicable tariffs; and

   b. PG&E is hereby absolved of and from any and all liability to Customer for, and Customer shall indemnify PG&E, its officers, agents and employees against, any and all damage, whether to person or property or due to financial injury, including but not limited to financial injury from interruption to Customer's business operations, which Customer or any third party may suffer by reason of, or in any way connected with such discontinuance of service; and

   c. Customer shall hold harmless PG&E, its officers, agents, and employees, from and indemnify them against any liability, claim, or loss from damage to any property or injury to or death of any person or persons in any way arising from or connected with the service facilities owned by ISP or Customer, as the case may be, and used by Customer to receive service hereunder, and PG&E has no obligation with respect to the operation or maintenance thereof.

2. This agreement will not terminate if the G-ESISP Service Agreement is terminated.

3. This agreement shall at all times be subject to PG&E's tariffs, and such changes or modifications as approved by the California Public Utilities Commission.

G-ESISP SERVICE RELOCATION AGREEMENT
(Continued)

AGREED TO BY:

For Customer	**For PG&E**
______________________ (Signature)	______________________ (Signature)
______________________ Name of Authorized Representative (Please print or type)	______________________ Name of Authorized Representative (Please print or type)
______________________ (Title)	______________________ (Title)
______________________ (Signature Date)	______________________ (Signature Date)

Appendix E-1

Pro Forma OFFICER'S CERTIFICATION

No Amounts Owing Pacific Gas and Electric Company

1. My name is [name].

2. I hold the office of [title] at [name of independent storage provider].

3. I hereby certify that on each day during the past six month period, commencing with [date] and ending with [date] the net meter flow to and from [name of ISP] to [name of direct interconnect customer], after adjusting for fuel and losses in accordance with [name of ISP]'s applicable tariff provisions, when added to the previous day' volumes in [name of direct interconnect customer] Storage Inventory Account equaled the end of the day inventory balance in that account.

____
[Signature]

____
[Print]

Date: __________________________________

Appendix E-2

***Pro Forma* OFFICER'S CERTIFICATION**

Amounts Owing to Pacific Gas and Electric Company

1. My name is [name].

2. I hold the office of [title] at [name of independent storage provider].

3. I hereby certify that on each day during the past six month period, commencing with [date] and ending with [date], the accounting procedures specified in Section 3.6.4 of the Independent Storage Provider Interconnections Settlement Agreement have been performed with respect to the Direct Connect Storage Inventory Account of [name of direct interconnect customer] the results of which indicate that Pacific Gas and Electric Company is owed end use customer charges on [volumes] and/or a Silverado As-Available Rate on [volumes].

____
[Signature]

____
[Print]

Date: ______________________________